

# PERAC AUDIT REPORT



Northampton Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2006



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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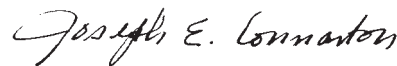
October 5, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Northampton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Harry Chadwick and Robert Madison who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Accounting Descriptions:**

In the opinion of the auditors, accounting entries by the Retirement System staff continue to be unacceptable because journal entry descriptions do not explain the purpose of the transaction. The auditors observed similar issues in the prior audit period ending December 31, 2003. At that time, the Board's response was "The Board considers the warrant, and its attached invoices, to be the official record. Sub-ledger reports can be provided to the auditors to detail the entries in the ledger. General ledger entries will continue to reflect the totals in each warrant." The Northampton Retirement System continues using a "non-descriptive", "summary entry", "multiple entry" method that makes it extremely difficult to determine, from reviewing Journal Entries and the General Ledger Report, the purpose of journal entries.

**Recommendation:** Each accounting entry must be descriptive enough so that the reader of the financial records can determine the purpose of the financial transaction. In addition, when multiple entries are necessary, each value must be fully described rather than summarized into one total. The auditors further recommend that the Board seek the advice of a competent accounting professional to review their accounting procedures in detail and recommend ways to strengthen their internal financial controls, reporting and disclosures.

### **Board Response:**

Northampton details expenditures on the warrant, summarizes the expenditures by category on a spreadsheet (which we call the cash sheet), and enters cash sheet totals into the general ledger.

The software package that we use currently (TACS) does not allow separate descriptions on line items, and so the general description is carried on the details.

The administrator has discussed this with Scanlon Associates, the accounting firm which audits the city of Northampton, and the preliminary results of that discussion are that:

They see no basic problem with the way we are doing the entries;

They recommend we staple a copy of the cash sheet for each month, and the refund work sheet for each month, to the warrant;

They recommend a separate worksheet to provide more detail on adjustment and correction entries.

Scanlon offered to call the PERAC auditors to understand more fully what their objections were, and to discuss this further when they return to complete the city's audit.

In addition, we will be changing our accounting software this year, and it is possible the new software will allow us to provide more detail descriptions in the line entries.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

If we enter details in the general ledger, it takes extra time, and it makes the general ledger a huge laundry list where individual warrants are no longer visible. The document becomes unusable for the staff, and usable only once every three years for PERAC. We will do our best to resolve these issues through one of the above efforts, and if necessary, take further action to find better software.

### 2. **Review of Minutes:**

A review of the minutes revealed that one Board member had a greater than twenty-five percent absentee rate in 2006 and was absent four out of five months of 2007, as well. The absentee rate for 2006 was approximately thirty-one percent and through May, 2007, eighty percent. An absentee rate that exceeds twenty-five percent is not considered reasonable.

**Recommendation:** Board members are expected to attend all scheduled Board meetings. The Board may want to consider changing the times of Board meetings in order to accommodate Board member's schedules. In addition, since the retirement system has adopted an annual stipend for service, the Board may want to consider adopting a supplemental regulation making payment of the stipend subject to reasonable attendance at Board meetings.

It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. In extreme conditions, it may be necessary to take appropriate action with members who fail to maintain minimum attendance requirements. Further, Board members, on occasion, may be permitted to participate in the meeting via a conference call, however, absent members are not allowed to have their vote recorded without attending the meeting in person.

#### **Board Response:**

The Board relies on the financial expertise of the board member in question, and will make arrangements for his participation via conference call.

### 3. **Contract Documentation:**

Documentation to verify Board approval of custodial rate increases since the original 1998 contract could not be located. Based on a desk review of documentation provided, the auditor determined that custodial fees have increased over time but Board approval did not exist at the time of the examination. 840 CMR 16.02(5) states that "a copy of every contract shall be retained by the board and be subject to audit by the Commission".

**Recommendation:** The Board must review its contracts to make sure all changes are approved by the Board and contracts are properly documented.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

**Board Response:**

Four consecutive mergers of financial institutions, with each bank accepting the fee schedule of the previous contract, have resulted in this situation. We have a new contract with State Street, following their recent merger with IBT.

**FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2006	2005	2004
<b>Net Assets Available For Benefits:</b>			
Cash	\$2,648,357	\$2,873,211	\$1,092,341
Short Term Investments	0	0	0
Fixed Income Securities	22,442,759	16,419,545	18,458,578
Equities	40,317,968	41,281,356	35,445,239
Interest Due and Accrued	248,646	67,749	199,772
Accounts Receivable	852,369	823,547	809,675
Accounts Payable	(27,232)	(24,202)	(22,377)
<b>Total</b>	<u>\$66,482,867</u>	<u>\$61,441,206</u>	<u>\$55,983,227</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$16,995,334	\$16,159,659	\$14,932,805
Annuity Reserve Fund	6,957,844	6,649,071	6,832,590
Pension Fund	1,484,298	2,575,548	3,265,509
Military Service Fund	12,475	10,041	9,403
Expense Fund	0	0	0
Pension Reserve Fund	<u>41,032,916</u>	<u>36,046,888</u>	<u>30,942,920</u>
<b>Total</b>	<u>\$66,482,867</u>	<u>\$61,441,206</u>	<u>\$55,983,227</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance ( 2004)	\$13,693,209	\$7,123,530	\$4,322,638	\$3,983	\$0	\$27,808,966	\$52,952,326
Receipts	1,920,568	208,287	3,414,396	5,421	337,069	3,133,989	9,019,731
Inter Fund Transfers	(214,363)	214,398	0	0	0	(35)	0
Disbursements	(466,610)	(713,625)	(4,471,526)	0	(337,069)	0	(5,988,829)
Ending Balance (2004)	14,932,805	6,832,590	3,265,509	9,403	0	30,942,920	55,983,227
Receipts	1,899,810	201,012	3,833,162	1,185	350,259	5,112,411	11,397,838
Inter Fund Transfers	(337,772)	346,215	548	(548)	0	(8,443)	0
Disbursements	(335,184)	(730,747)	(4,523,671)	0	(350,259)	0	(5,939,860)
Ending Balance (2005)	16,159,659	6,649,071	2,575,548	10,041	0	36,046,888	61,441,206
Receipts	2,121,748	196,077	3,815,533	2,435	372,400	4,986,127	11,494,320
Inter Fund Transfers	(844,618)	844,717	0	0	0	(99)	(0)
Disbursements	(441,454)	(732,021)	(4,906,783)	0	(372,400)	0	(6,452,658)
Ending Balance (2006)	<u>\$16,995,334</u>	<u>\$6,957,844</u>	<u>\$1,484,298</u>	<u>\$12,475</u>	<u>\$0</u>	<u>\$41,032,916</u>	<u>\$66,482,867</u>



# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
<b>Annuity Savings Fund:</b>			
Members Deductions	\$1,757,338	\$1,613,188	\$1,516,572
Transfers from Other Systems	175,990	60,128	293,911
Member Make Up Payments and Re-deposits	94,619	139,291	28,493
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>93,801</u>	<u>87,202</u>	<u>81,593</u>
Sub Total	<u>2,121,748</u>	<u>1,899,810</u>	<u>1,920,568</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>196,077</u>	<u>201,012</u>	<u>208,287</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	107,618	103,540	90,908
Received from Commonwealth for COLA and Survivor Benefits	155,148	310,192	210,875
Pension Fund Appropriation	<u>3,552,767</u>	<u>3,419,430</u>	<u>3,112,613</u>
Sub Total	<u>3,815,533</u>	<u>3,833,162</u>	<u>3,414,396</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	2,378	1,129	5,397
Investment Income Credited to the Military Service Fund	<u>57</u>	<u>56</u>	<u>24</u>
Sub Total	<u>2,435</u>	<u>1,185</u>	<u>5,421</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>372,400</u>	<u>350,259</u>	<u>337,069</u>
Sub Total	<u>372,400</u>	<u>350,259</u>	<u>337,069</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	33,069	25,385	17,362
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	2,055	2,846	4,120
Miscellaneous Income	0	0	0
Excess Investment Income	<u>4,951,002</u>	<u>5,084,180</u>	<u>3,112,508</u>
Sub Total	<u>4,986,127</u>	<u>5,112,411</u>	<u>3,133,989</u>
<b>Total Receipts</b>	<u>\$11,494,320</u>	<u>\$11,397,838</u>	<u>\$9,019,731</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2006	2005	2004
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$269,482	\$145,459	\$307,532
Transfers to Other Systems	<u>171,972</u>	<u>189,725</u>	<u>159,078</u>
Sub Total	<u>441,454</u>	<u>335,184</u>	<u>466,610</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	727,279	696,597	693,186
Option B Refunds	<u>4,742</u>	<u>34,150</u>	<u>20,439</u>
Sub Total	<u>732,021</u>	<u>730,747</u>	<u>713,625</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	3,449,738	3,160,853	3,149,161
Survivorship Payments	251,952	248,864	263,632
Ordinary Disability Payments	105,703	94,900	92,447
Accidental Disability Payments	778,201	730,495	686,083
Accidental Death Payments	179,544	141,049	148,510
Section 101 Benefits	7,877	7,647	7,425
3 (8) (c) Reimbursements to Other Systems	<u>133,768</u>	<u>139,862</u>	<u>124,268</u>
Sub Total	<u>4,906,783</u>	<u>4,523,671</u>	<u>4,471,526</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	16,750	18,000	18,000
Salaries	85,734	72,272	66,232
Legal Expenses	1,249	2,602	1,514
Medical Expenses	45	79	79
Travel Expenses	6,311	5,457	3,392
Administrative Expenses	26,425	10,080	11,640
Furniture and Equipment	0	0	999
Management Fees	180,368	180,831	168,730
Custodial Fees	36,173	33,174	38,962
Service Contracts	15,209	23,400	22,616
Fiduciary Insurance	<u>4,137</u>	<u>4,364</u>	<u>4,906</u>
Sub Total	<u>372,400</u>	<u>350,259</u>	<u>337,069</u>
<b>Total Disbursements</b>	<u><b>\$6,452,658</b></u>	<u><b>\$5,939,860</b></u>	<u><b>\$5,988,829</b></u>

# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
<b>Investment Income Received From:</b>			
Cash	\$111,927	\$48,139	\$21,103
Short Term Investments	0	0	0
Fixed Income	1,261,724	1,153,188	1,249,139
Equities	777,090	691,170	628,158
Pooled or Mutual Funds	0	0	0
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>2,150,740</u>	<u>1,892,497</u>	<u>1,898,400</u>
<b>Plus:</b>			
Realized Gains	830,954	257,725	679,069
Unrealized Gains	5,376,507	6,939,732	4,194,499
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>248,646</u>	<u>67,749</u>	<u>199,772</u>
Sub Total	<u>6,456,107</u>	<u>7,265,206</u>	<u>5,073,339</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	(245,734)	(208,417)	(295,676)
Realized Loss	(1,948,321)	(1,636,586)	(1,581,318)
Unrealized Loss	(731,707)	(1,390,218)	(1,194,170)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(67,749)</u>	<u>(199,772)</u>	<u>(161,095)</u>
Sub Total	<u>(2,993,511)</u>	<u>(3,434,994)</u>	<u>(3,232,259)</u>
<b>Net Investment Income</b>	<u>5,613,337</u>	<u>5,722,709</u>	<u>3,739,481</u>
<b>Income Required:</b>			
Annuity Savings Fund	93,801	87,202	81,593
Annuity Reserve Fund	196,077	201,012	208,287
Military Service Fund	57	56	24
Expense Fund	<u>372,400</u>	<u>350,259</u>	<u>337,069</u>
<b>Total Income Required</b>	<u>662,335</u>	<u>638,529</u>	<u>626,973</u>
Net Investment Income	<u>5,613,337</u>	<u>5,722,709</u>	<u>3,739,481</u>
Less: Total Income Required	<u>662,335</u>	<u>638,529</u>	<u>626,973</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$4,951,002</u>	<u>\$5,084,180</u>	<u>\$3,112,508</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2006		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$2,648,357	4.05%	0% - 100%
Fixed Income	22,442,759	34.31%	35% - 80%
Equities	40,317,968	61.64%	0% - 65%
<b>Grand Total</b>	<u>\$65,409,084</u>	<u>100.00%</u>	<u>100.00%</u>

For the year ending December 31, 2006, the rate of return for the investments of the Northampton Retirement System was 9.35%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Northampton Retirement System averaged 7.22%. For the twenty-two year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Northampton Retirement System was 10.34%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Northampton Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

December 17, 1986

- 20.03(1) Equity investments shall not exceed 65% of the total book value of the portfolio at the time of purchase.
- 20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.
- 20.04(6) American Depositary receipts listed on a United States stock exchange or traded over the counter in the United States.
- 20.06(8) Bond Investments - Sales of fixed income investments with maturities exceeding one year shall not exceed 100% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.
- 20.07(6) Equity Investments Sales of equity investments shall not exceed 50% of the average market value of all equity holdings in any twelve month period.

December 21, 1987

- 20.04(6) American Depositary Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that any such investments not exceed 5% of the total book value of equity investments.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Northampton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age".

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum ages or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2) (a) (iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Northampton Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 20, 1984

**Membership:**

Part-time employees, who work a minimum of twenty (20) hours a week, shall become members of the Northampton Retirement System, after having been employed for six (6) months at the above mentioned minimum number of hours. Creditable Service will be given on the basis of time for time, based on the normal work week of the department.

**Creditable Service:**

Time for time is granted based on the normal work week of the department. In the case of part-time school employees, however, the number of hours worked is divided by 1400 to arrive at one (1) year of creditable service.

**Right of Privacy:**

Financial records, actual account amounts and medical records of members and former members of the City of Northampton Retirement System are not public records.

**National Guard Duty:**

Retirement deductions are to be taken only on the funds paid to them from the City, and not from the salary paid to them by the Federal Government. (National Guardsmen receive from the City for their summer tours, the difference between pay from the City and what the Federal Government allows. They do not lose any time in creditable service for the weeks they must spend with the Guard).

**Deductions:**

It is the policy of the retirement system that any members of the system who have another salaried position within the City must have deductions withheld from both salaries for retirement purposes. This does not apply to persons employed intermittently by the Recreation Department or persons paid as election workers. It applies to employees such as the Planning Department secretary who is also Secretary to the Planning Board and is paid an additional bi-yearly sum for attending monthly evening's meetings and taking minutes.

August 27, 1990

**Creditable Service:**

"Part-time employees, however, who have worked consistently on a part-time basis for all of their years of employment with the City of Northampton, shall have, upon becoming eligible and applying for the retirement benefits from the City, full-time creditable service granted at such retirement time. Employees who have worked both full and part-time during their years of

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

employment shall have their part-time service prorated and added to their full-time service. Regular compensation for purposes of calculating the retirement allowance shall be the average of their last three or highest three years of earnings, whichever is greater, of three consecutive fifty-two week years.”

#### **Make-up Payments:**

Any member in service who, upon approval of the Northampton Retirement Board, wishes to pay into the system a make-up payment of regular deductions, together with regular interest, to purchase creditable service for previous employment in the Northampton Retirement System or any other system within the Commonwealth governed by the provisions of Chapter 32 of the General Laws in which he/she had been a member, shall pay such make-up at the rate of at least \$10(ten) dollars per week for every fifteen hundred (\$1,500.00) of the total amount of accumulated deductions owed. Increments shall be at the minimum rate of \$10 per week, or as determined by the Retirement Board, in order that the total repayment time shall be completed no later than December 31st of the third year from the onset of such make-up payments.”

November 13, 1990

“New employees who have the words ‘Temporary and/or Intermittent’ included in their job descriptions shall not become members of the System due to the nature of these positions. Upon receiving a permanent appointment or a change in job description, the employee shall become a member, provided that he/she meets the requirements for membership outlined in previously approved rules, e.g. part-time employees. Temporary full-time employees who become permanent full-time employees shall have the option of buying back their time to initial date of hire, provided there has been no break in service. This rule applies to former C.E.T.A. employees whose positions have been made permanent, are now City employees, and wish to buy back their creditable service to original date of hire.”

September 3, 1991

“Part-time employees who work a minimum of twenty (20) hours a week shall become members of the Northampton Retirement System. Creditable service will be granted on the basis of time for time based on the work week of the department”.

April 28, 2003

“Part-time employees who work a minimum of twenty (20) hours per week shall become members of the Northampton Retirement System. Creditable service will be granted on a full-time basis for those working at least 20 hours per week on a regular schedule.”

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

March 30, 2006

#### POLICY MANUAL MEMBERSHIP

This policy supersedes and replaces all previous membership policies of this board.

All permanent employees of the city working a minimum of 20 hours per week shall become members of the Northampton Retirement System.

All permanent school employees who work more than 20 hours per week and who are not eligible for membership in the Teachers Retirement System shall become members of the Northampton Retirement System.

Elected officials may join the system and have 90 days from the date of assuming office to elect to do so.

All on-call fire and police employees shall become members of the Retirement System, with creditable service to be determined at the time the employees become permanent employees.

Those employees who are temporary or intermittent and later become permanent shall join the Retirement System, and will have the option of buying back their previous temporary service.

Members of the System who drop below the minimum requirements for membership will remain members of the System and will continue to make contributions.

All members who work at least 20 hours per week will be considered full-time for purposes of calculating creditable service.

Those members who are working less than 20 hours per week, and those members buying back previous service of less than 20 hours per week, will have service calculated as a percentage of the 20-hour full-time rate, e.g. 10 hours will be considered halftime, and 5 hours will be considered one-fourth time.

School employees who work the entire school year and return the following September will be granted a full-year of creditable service. Employees who leave at the end of the school year will be granted credit through their date of resignation.

#### POLICY MANUAL CREDITABLE SERVICE

This policy supersedes and replaces all previous creditable service policies of this board.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Active members may buyback service previous to membership and may buyback previous service that was refunded to them.

No liability will be accepted for employees of other Systems who were never active members of the Northampton Retirement System.

Prior service that was at least 20 hours per week will be considered full-time. Service less than 20 hours will be prorated as a percentage of the 20-hour minimum.

Military buybacks are calculated at an annualized 35-hour salary based on the rate listed on the membership form, and as verified by the deductions received. When no salary information is given, salary will be estimated using the first full 12 months of deductions.

Where information is sufficient to prove that the employee was employed by Northampton, every effort will be made to make an accurate estimate of the creditable service and of the salaries earned. The Retirement Board is the final arbiter of service granted in cases where full employment records are not available.

All buybacks must be completed prior to retirement and no creditable service will be granted until the buyback is complete.

Once a buyback is begun, it must be completed within 3 years. For buybacks greater than \$4,000, members can take up to 4 years to complete it. Payback schedules longer than 4 years require board approval.

#### POLICY MANUAL ELECTIONS

This policy supersedes and replaces all previous election policies of this board.

Elections will be held as a one-day walk-in event, with the retirement office as the polling station. The office will be open 7:00 a.m. to 6:00 p.m. on that day.

Candidates will be listed on the ballot in the order determined by a random drawing, conducted by the election officer.

Candidates will not be given a mailing list of members. Candidates may provide material in postage-paid envelopes for mailing to retirees and/or active members.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Retirees will be provided with mail-in ballots. Active members can request an absentee ballot.

Mailed-in ballots must contain a name and return address on the outside. Ballots with no return address will not be counted. Ballots can be enclosed in a sealed inner envelope if the voter wishes to do so. Ballots will be checked off the eligible voter list as they are received, separated from the outer envelope, and set aside for counting.

Walk-in voters must show identification, and will be checked off the eligible voter list.

Once the polls are closed, the election officer and that officer's designees will count the ballots and post the election returns. The results will be posted in all departments, and will be included in the next retirement check mailing.

#### POLICY MANUAL MISCELLANEOUS

##### Retirement Payroll

Retirement checks are mailed on the next-to-last business day of the month and are dated the last business day of the month.

With each change in board membership or staff, a notice will be sent to the treasurer including the eligible signatures for signing warrants, and stating that the treasurer is authorized to release funds upon receipt of a warrant signed by any two of the board members listed, or alternatively signed by the retirement administrator and any one of the board members listed.

When the monthly board meeting falls after the date of the warrants to pay direct deposits and to mail retirement checks, the retirement administrator is authorized to sign the payroll warrant. When the board meeting schedule may lead to late fees or other problems, the retirement administrator is authorized to sign an accounts payable warrant. Any such warrant must be signed by one board member. Any such warrant so signed will be presented at the next meeting for board approval.

Retirement checks which are lost in the mail will be replaced after 5 days, provided the retiree agrees to return the original check if received. If the retiree should later cash the original check, the overpayment will be deducted from his/her next retirement check, and all future requests for replacement checks will require stop payment of the original check and a waiting period for the treasurer to assure the check has not been cashed before a replacement check can be issued, and the retiree will be charged a stop-payment fee equal to the rate charged by the Board's bank.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

#### New Retirements

New retirees will be paid beginning the work-day following their last paid day of employment or on their requested date of retirement, whichever comes last. Partial months of retirement will be prorated based on a 30-day month (e.g. if a person retires on the 15th of the month and is paid for the 15th, their retirement pay will start on the 16th and will be equal to one-half month's pay).

#### Accounts Payable

When the board meeting schedule leads to late-payment fees or other problems, bills may be paid prior to the warrant and marked as pre-released on the warrant. Currently, this policy would apply only to the bottled water bill, the newspaper subscription, and to hotel reservations.

#### Payroll Certification

Retirees and survivors are not required to have their signatures notarized. Those signing the payroll certification form under power of attorney will be required to have the form notarized.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Annmarie Baron

Appointed Member:	Christopher Pile	Term Expires:	Until a successor is named
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Elected Member:	Shirley LaRose	Term Expires:	6/30/10
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Elected Member:	Michael Lyons	Term Expires:	6/30/08
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Appointed Member:	A. Edwin Putnam	Term Expires:	1/6/09
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex-officio Member:	)	\$50,000,000
Elected Member:	)	St. Paul Travelers,
Appointed Member:	)	National Union Fire and
Staff Employee:	)	Arch Insurance Companies

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2005.

The actuarial liability for active members was	\$40,742,427
The actuarial liability for retired and inactive members was	<u>50,085,130</u>
The total actuarial liability was	90,827,557
System assets as of that date were	<u>56,569,097</u>
The unfunded actuarial liability was	<u>\$34,258,460</u>
 The ratio of system's assets to total actuarial liability was	 62.3%
As of that date the total covered employee payroll was	\$18,120,015

The normal cost for employees on that date was 8.30% of payroll

The normal cost for the employer was 4.40% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum  
 Rate of Salary Increase: 4.50% per annum

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005 (in thousands, ,000)

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2005	\$56,569	\$90,828	\$34,259	62.3%	\$18,120	189.1%
1/1/2003	\$51,244	\$83,270	\$32,026	61.5%	\$18,226	175.7%
1/1/2000	\$48,306	\$63,748	\$15,442	75.8%	\$15,833	97.5%
1/1/1998	\$33,472	\$53,353	\$19,881	62.7%	\$14,026	141.7%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Retirement in Past Years</b>										
Superannuation	10	11	7	-	13	30	50	5	9	2
Ordinary Disability	0	3	2	-	0	0	0	0	0	0
Accidental Disability	1	1	4	-	3	1	1	0	0	0
<b>Total Retirements</b>	11	15	13	0	16	31	51	5	9	2
Total Retirees, Beneficiaries and Survivors	260	249	253	270	277	299	332	326	325	331
Total Active Members	543	560	585	612	622	638	625	611	646	674
<b>Pension Payments</b>										
Superannuation	\$1,620,684	\$1,665,852	\$1,670,435	\$1,851,816	\$2,041,972	\$2,208,628	\$2,473,126	\$3,149,161	\$3,160,853	\$3,449,738
Survivor/Beneficiary Payments	177,080	206,663	203,738	239,912	246,885	249,854	246,931	263,632	248,864	251,952
Ordinary Disability	78,942	86,524	117,420	106,314	85,430	82,536	90,013	92,447	94,900	105,703
Accidental Disability	366,570	382,019	446,741	556,877	602,457	630,905	672,580	686,083	730,495	778,201
Other	<u>181,124</u>	<u>186,488</u>	<u>212,484</u>	<u>229,118</u>	<u>257,560</u>	<u>263,155</u>	<u>274,745</u>	<u>280,203</u>	<u>288,559</u>	<u>321,189</u>
<b>Total Payments for Year</b>	<u>\$2,424,400</u>	<u>\$2,527,546</u>	<u>\$2,650,818</u>	<u>\$2,984,037</u>	<u>\$3,234,304</u>	<u>\$3,435,078</u>	<u>\$3,757,395</u>	<u>\$4,471,526</u>	<u>\$4,523,671</u>	<u>\$4,906,783</u>

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